

Hindustan Media Ventures Limited

April 02, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating action
Commercial Paper Programme	400.0	200.0	[ICRA]A1+; reaffirmed
Long- term Borrowing Programme	25.0	0.0	[ICRA]AA+(Negative); ratings withdrawn
Total	425.0	200.0	

*Instrument details are provided in Annexure-1

Rationale

The short- term rating reaffirmation continues to favourably factor in the healthy operational and business synergies of HMVL with HTML and the strong brand recognition, as well as the leadership position of its key publication, *Hindustan*, in key Hindi-speaking markets. While the operating performance in 9M FY2019 was impacted due to high newsprint prices and relatively weak advertisement revenues, the ratings continue to take cognisance of the company's strong credit metrics, as evidenced by sizable equity base, significant unencumbered cash balances, marginal debt on the books, healthy cash flows from operations (barring current fiscal) and debt coverage indicators. Going forward, the company expects operating performance to improve on account of the moderation in newsprint prices from Q4 FY2019 and revenue boost from the Directorate of Advertising and Visual Publicity (or DAVP, which advises Government advertisement rates) price revision and upcoming general elections.

Although long-term industry growth drivers remain favourable, the ratings continue to be constrained by HMVL's single publication-driven revenue model and limited geographical diversity. ICRA notes that the competition in the Hindi print media sector has been growing, with most of the large print media players entering markets that have traditionally been the stronghold for *Hindustan*. This has impacted the growth in circulation revenues and has necessitated continuous investments in the core markets (on increasing copies in circulation, branding and promotion) to maintain market share. Further, ICRA notes the susceptibility of the company's margins to volatility in newsprint prices (as is being witnessed currently) and vulnerability of its revenue growth to economic cycles and/or specific events, on account of an advertising revenue-driven business model, inherent to the nature of the print media industry.

Going forward, the company's ability to resume its high revenue and profit growth trajectory, maintain its leadership position in key markets (amid rising competition from other major print players) as well as its credit profile regardless of any chance funding of organic or inorganic growth initiatives, continue to remain the key rating sensitivities.

The withdrawal of long-term rating has been done at the request of the company and on the basis of its confirmation that no instrument has been placed against the same.

Key rating drivers

Credit strengths

Healthy brand recognition and leadership position of *Hindustan* in key Hindi-speaking states - HMTL's key publication, *Hindustan*, is a leading Hindi daily, with a circulation of 2.63 million copies¹ per day. It is ranked third in the Hindi daily segment and is the fourth highest circulated daily across languages in India as per the Audit Bureau of Circulations. As per the Indian Readership Survey (IRS) 2017, it is among the top newspapers in key Hindi speaking markets of Bihar, Jharkhand, Uttar Pradesh and Uttarakhand.

Healthy operational synergies within Hindustan Times Group with presence across media platforms - HMTL has strong operational linkages with its parent company, HTML, both having print media as their core business and HTML enjoying a diversified presence across other media offerings. HTML publishes the leading English daily, *Hindustan Times* (circulation of 1.0 million copies per day and ranked third in the English Daily segment), and the financial daily, *Mint*. HTML is also present in the radio space (owns 15 frequencies in 13 cities branded under *Fever 104 FM* and *Radio Nasha*), digital (online versions of its key publications—*HT.com*, *Live Mint.com*, *LiveHindustan.com*—along with *shine.com*, *desimartini.com* and *HT Campus*) and multimedia content development. This provides operational synergies by leveraging a common brand with access to advanced technology and infrastructure (all investments towards same core business), common marketing teams, and a shared sourcing team, among several other factors.

High financial flexibility and comfortable debt protection metrics – Despite the decline in operating income (4% YoY) and profits (~58% YoY) in 9M FY2019, HMTL's financial profile continues to remain strong. This is evident from its healthy cash accruals (~Rs. 71 crore in 9M FY2019), a sizeable equity base (tangible net worth of ~Rs. 1348 crore as on September 30, 2018), low gearing (0.2 time as on September 30, 2018) and sizeable cash surplus (~Rs. 1,200 crore as on September 30, 2018), leading to comfortable coverage indicators.

Favourable industry growth drivers; although competition may prevent margin expansion - Vernacular and Hindi newspapers have been driving the print industry growth momentum and are likely to continue doing so over the medium term. Their growth would be supported by improving literacy rates, higher penetration, strong domestic consumption-driven growth in markets, and increasing hyper localisation, among other factors. While *Hindustan* enjoys a leadership position, increasing peer competition is likely to prevent significant margin expansion over the medium term.

Credit challenges

Single-publication driven revenue model with limited geographical diversity – HMTL derives nearly all its revenues from its key publication, *Hindustan*. Moreover, more than three-fourth of its overall revenues come from the Bihar, Jharkhand and Uttar Pradesh markets. While segmental and geographical diversification of revenues remains a concern, operational synergies with its parent company's English publications and the HT Group's diversified presence across media platforms (radio, internet, mobile) mitigate the risk to an extent.

Incremental investment required for maintaining market position in an intensely competitive industry; loss funding in new businesses – In the Hindi print segment, *Hindustan* faces competition from *Dainik Bhaskar*, *Dainik Jagran*, and *Amar Ujala*, among others. Increased competition in its key markets of Bihar and Uttar Pradesh has necessitated incremental investment in increasing circulation to maintain its market leadership. While high newsprint cost drove the cover price hike across markets in Q1 FY2019, the loss of copies and/or shift towards more subscription copies may impact the company's circulation revenues, while the investment requirements are likely to remain high. Going forward, the B2C

¹ As per data reported by the Audit Bureau of Circulation (ABC) for the January-June 2018 period. The ranking is amongst the member publications only and includes variant copies.

division of the Bridge School of Management, which is involved in the higher education sector, is proposed to be transferred from HTML to HMVL. This segment would also require funding support over the near-to-medium-term.

Susceptibility of operating profit margins to global newsprint prices and foreign exchange fluctuations - As newsprint accounts for nearly 60% of the company's operating costs, its profitability is vulnerable to movements in its prices. Furthermore, a large part of the requirement was being met through imported newsprint over the last few years. The cost also became susceptible to adverse movement in domestic currency. The on-going inflationary cycle in newsprint prices impacted the margins over the next four quarters. Nonetheless, the HT Group's bulk procurement capabilities and extensive relationship with its suppliers is expected to partially mitigate the risk.

Vulnerability of revenues to economic cycles and socio-political events - The business model for newspaper publishers is susceptible to advertisers' preference based on the consumption cycles of general readers. These in turn are impacted by multiple socio-economic and political factors. Since the impact of such events varies among industries in the economy, the risk to revenues can be partially mitigated by a well-diversified end-user client profile, as available to HMVL.

Liquidity Position

HMVL has debt outstanding of approximately Rs. 80 crore as on March 26, 2019, primarily constituting long-term loan availed during the year. Repayments of this long-term loan is spread evenly over the next four years (FY2020-FY2023) and is marginal compared to the projected cash accruals. No major concerns on liquidity are foreseen, given the cash and liquid investments of nearly Rs. 1100 crore as on December 31, 2018, and unutilised bank lines of nearly Rs. 500 crore. Furthermore, with easing of newsprint price pressures and expectation of improved advertisement revenues from the forthcoming general elections, working capital funding requirement will be minimal, leading to better cash flows from operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Print Media Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

HMVL is a Patna-based company, primarily involved in the newspaper publishing industry. It is a part of the Hindustan Times Group, with 74.3% shareholding with HTML, and publishes the leading Hindi daily newspaper, *Hindustan*. The flagship publication of HMVL enjoys one of the largest readership in key Hindi-speaking markets of Bihar and Jharkhand, with a strong and growing presence in the Delhi National Capital Region, Uttar Pradesh and Uttarakhand. HMVL also publishes two Hindi magazines—*Nandan*, a children's magazine, and *Kadambini*, a general interest magazine. Under a proposed realignment of businesses within the Group, the higher education segment—comprising the Bridge School of Management—is proposed to be transferred from HTML to HMVL. The scheme of arrangement for the same is awaiting regulatory approvals.

Key financial indicators

	FY2017	FY2018	9M FY2019
OI (Rs. crore)	933.3	880.1	652.9
PAT (Rs. crore)	192.4	171.2	55.4
OPBDIT/ OI (%)	22.0%	20.6%	6.3%
RoCE (%)	23.0%	17.5%	-
Total Debt/ TNW (times)	0.1	0.1	-
Total Debt/ OPBDIT (times)	0.6	0.6	-
Interest Coverage (times)	12.7	16.0	2.7

Source: Company results; ICRA research *Limited results; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; RoCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability-Capital Work-in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years						
Instrument	Type	Amount Rated (Rs. crore)	Amount Out-standing (Rs. crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018			Date & Rating in FY2017	
				Apr-19	Jan-19	Oct-18	Sep-17	Jul-17*	May-17	Nov-16	Sep-16
1 Commercial Paper Programme	Short Term	200.0	Nil	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+			[ICRA]A1+	
2 Long Term Borrowing Programme	Long Term	Nil**	Nil	[ICRA]AA+ (negative); Withdrawn	[ICRA] AA+ (negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)			[ICRA]AA+ (Stable)	

* Update on Q1FY2018 results; ** Company has confirmed that no Long-term borrowing Program placed

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated Commercial Paper	NA	--	NA	200.0	[ICRA]A1+

Source: HMVL

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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